

ON PERFORMANCE APPRAISAL

Hamid Kimiagar

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THESIS

ON PERFORMANCE APPRAISAL

by

Hamid Kimiagar

June 1974

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section, the philosophy and the system of management-by-objectives (MBO) are discussed, and some advantages of appraisal-by-results, as a part of MBO, are given.

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by

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ABSTRACT

The first section of this thesis is a brief review of the conventional approach to performance appraisal, and attempts to point out some evidence of its deficiencies and obsolescence. As a result of these deficiencies, researchers worked to develop appraisal techniques that would optimize the reliability and validity of appraisal judgments. The second section discusses some philosophies in this regard, and the third section looks at behavior in the work situation and major variables affecting performance. In the fourth section, the philosophy and the system of management-by-objectives (MBO) are discussed, and some advantages of appraisal-by-results, as a part of MBO, are given.

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INTRODUCTION

The appraisal of individual performance is a fundamental act, the origin of which is shrouded in the mists of antiquity.¹ Since the beginning of time men have been appraising one another, and their appraisals have encompassed many personal factors which have been used in a variety of different circumstances with different purposes in mind.² Appraisal is the measurement by any of a variety of methods of what a man does. Long before the tremendously large business enterprises of today were in existence, men matched other men and appraised their behavior against their own personal goals and standards.³ It is only natural for people to appraise each other daily and to measure the performance of others and compare their performance against that of those they admire most. Persons in daily contact with one another cannot help judging others and reacting to their judgments. It is management's objective to make these appraisals fair, systematic, and useful.⁴

The question, of course, is not whether appraisal is desirable - since it cannot be avoided. Instead, the questions are: Appraisal for what purpose? On what basis should the appraisal be made? What factors should be taken into account?⁵ The manager who says he doesn't make appraisals any more usually means he doesn't fill out a form labeled "appraisal." He doesn't mean he has stopped appraising his boss, his customers, his associates, his employees and himself. The manager who says appraisals have been doing more harm than good usually means that his discussions with his employees haven't brought about any improvement in their performance or may even have been followed by deterioration of performance. But

he probably doesn't mean that from now on he's going to recommend salary increases on the basis of whim or the toss of a coin.⁶

Fortunately or unfortunately, appraisal is here to stay as an essential part of managerial work. Since this is so, managers should have a good understanding of what appraisal is, how accurate it can be, and what they can realistically expect from the appraisals they make.⁷

I. CONVENTIONAL APPROACH TO PERFORMANCE APPRAISAL

Early performance appraisal systems were designed mainly for administrative purposes to help management to decide whom to promote, transfer, fire or give a raise. During the 1920's and 1930's they tended to focus on the rating of subjective characteristics that were thought to be associated with successful performance. The approach consisted of brief descriptions or word checklists from which the rater selected adjectives that he thought were appropriate to the individual being rated.

This trait approach is now being replaced by a complex of techniques that have been designed to describe behavior and measurable achievement within the corporate setting. Some of these techniques are as follows:

Graphic scale - These scales assess several different factors such as quality and quantity of work, personal characteristic, etc. Each factor is listed and the rater chooses the degree of attainment over a scale ranging from unsatisfactory up through outstanding or excellent, or other such adjectives. This is a most widely used and effective method of comparison, especially when also supported by essay justification of rating; it is consistent and reliable over a broad range of job types.⁸

Ranking method - A method of placing ratees in order of merit. Two most common ways are:

A. Alternation Ranking - all ratees listed on left side of page. Rater picks best one, crosses off list and puts name at top of right side of page. Then rater chooses the worst one, crosses off list and puts name at bottom of page. Process continues until all are listed in order of merit.⁹

B. Paired-Comparison Ranking - All ratees listed. Each ratee compared with each other ratee (as a pair) for each characteristic being evaluated. As each pair is considered, the one which is judged better is given a tally mark. After every ratee has been compared with every other ratee (in pairs) the one with the most tallies is put first on the merit list. Each is listed in order of the number of tallies received.¹⁰

Forced-Choice Rating - Many variations. Most common is to force rater to choose from among groups of definitive statements, those which best describe the ratee, and those which least describe the ratee. The rater is generally not aware of the score value assigned to the statements. The scoring is done by a special staff much the same way a psychological test is scored. The rater simply describes the ratee, then a score is computed by the staff, and the individuals are placed in order by rank according to highest score. A drawback is that the method tends to irritate the evaluators; they feel they are not being trusted. Some tend to pick at random or purposely "second-guess" the system.¹¹

Critical Incidents - Focusing upon the reporting of behavior incidents, it attempts to eliminate immediate appraisal of the individual. The input data are relatively unambiguous behavior incidents. While behavior incident may be overlooked by the supervisor, those that are recorded are available for scrutiny by all. Conversion of such reports into an overall appraisal is then rather mechanistic.¹²

The defects, as well as the strengths of any appraisal system, stem from two main sources: (1) Technical characteristics of the system itself, and (2) the ability of the appraiser to exercise objective judgment and apply the tools provided.¹³

A. TECHNICAL PROBLEMS

The main technical problems of performance appraisal fall into two categories: (1) The criterion problem, and (2), distortion that reduces the validity of the results.

1. A criterion is a measure of performance important to a manager, and against which he compares subordinates' actual performances.

2. Distortions occur in the form of biases and errors by the evaluator when making evaluations. Such distortions may be introduced by evaluators consciously or unconsciously. All systems are subject to possible distortions based on prejudice, emotion, or opinion.¹⁴

For example, some raters rate highest those who are like themselves, and downgrade those who are different.¹⁵ The recency of good or bad performance near the time of rating can also influence the appraiser's judgments, cancelling out a previously established good or bad history.¹⁶

Halo effect distorts evaluation especially where the appraiser does not know the subordinate whom he is rating well, or if he has observed only isolated, random events.¹⁷ Leniency or severity: some appraisers habitually rate everyone high and others tend to rate low. Leniency errors occur for many reasons, including the desire to avoid antagonizing subordinates, the desire to support wage increase requests, the desire to avoid reflection on themselves, or because the employee is older, has long service, or has other factors demanding consideration. Central tendency is another widespread rating error. In this form of distortion, the appraiser fails to discriminate between superior and inferior employees. Central tendency errors arise from the appraiser's lack of knowledge of the individuals he is rating, and from haste, indifference, or carelessness.¹⁸

B. PROBLEMS IN JUDGMENT

G. W. Allport suggests that the ability to judge others is analogous to artistic ability in that it is neither entirely general nor entirely specific. He states: "It would be unreasonable, therefore, to expect a judge of people to be uniformly successful in estimating every quality of every person ... It seems more of an error, however, to consider the ability entirely specific than to consider it entirely general."¹⁹

Ronald Taft in his conclusion based on over eighty references says:

The main attribute of the ability to judge others seems to lie in three areas: Possessing appropriate judgmental norms, judging ability, and motivation. Where judge is similar in background to subject, he has the advantage of being readily able to use appropriate norms for making his judgment. The relevant judging ability seems to be a combination of general intelligence and social intelligence, with the possibility of additional specific factor for non-analytic judgments ('intuition') - so far only Wedeck has distinguished such a factor. But probably the most important area of all is that of motivation: if the judge is motivated to make accurate judgment about his subject and if he feels himself free to be objective, then he has a good chance of achieving his aim, provided of course that he has the requisite ability and can use the appropriate judgmental norms.²⁰

C. ORGANIZATIONAL PROBLEMS

Formal performance appraisal plans are designed to meet three needs, one of the organization and two of the individual.

(1) They provide systematic judgments to back up salary increases, promotions, transfers, and sometimes demotions or termination.

(2) They are the means of telling a subordinate how he is doing and suggesting needed changes in his behavior, attitude, skills, or knowledge: they let him know "where he stands" with the boss.

(3) They also are being increasingly used as a basis for the coaching and counseling of the individual by the superior.²¹

Traditional personnel research on employee effectiveness has tended to be categorized into separate functional processes such as employee selection, employee development and the evaluation of the work situation. This attitude suggests that performance appraisal ought to focus on the individual's on-the-job behavior, and that selection procedures ought to be oriented toward likelihood of job success. On the other hand, it has become increasingly apparent "that personnel effectiveness is an inter-related amalgam of such functional processes."²²

McGregor suggests that:

The conventional approach to performance appraisal stands condemned as a personnel method. It places the manager in the untenable position of judging the personal worth of his subordinates, and of acting on these judgments. No manager possesses, nor could he acquire, the skill necessary to carry out this responsibility effectively. Few would even be willing to accept it if they were fully aware of the implication involved. It is this unrecognized aspect of conventional appraisal programs which produces the widespread uneasiness and even open resistance of management to appraisals and especially to the appraisal interview.²³

Whisler states:

Traditional appraisal plans have failed in the past and will continue to fail in the future for reasons more basic than the one suggested by McGregor. One part of the problem is perpetual conflict between the demands of personal and organizational needs upon the time and effort of the man in the organization. The individual seeks his own goals; the organization tries to devise ways of assuring that his goal-seeking behavior also serves organizational needs. But the results, historically, have fallen short of perfection, and diversity of interest exists.²⁴

Whisler in the same article discusses that, since decisions must be made frequently, the boss must have an answer always ready for the first two needs stated earlier in this section or pay the penalty, so the measurement of the effectiveness and promptness of such information is possible - and is made, because it yields a payoff to the individual. On the other hand, development of subordinate does not always pay off to the superior, because of the freedom of the individual to leave the organization

and almost complete inability to trace the effectiveness of development efforts. "So the lack of well-counseled and 'developed' subordinates" (which seems to be a common complaint in organizations) may not result in a penalty against the superior. With just so much time and effort available, the superior will be inclined to do that which enhances his own standing in the organization and ignore that which does not. He will evaluate individuals (as informally as possible to save time) and not coach and counsel them."²⁵

The conventional approach, unless handled with consummate skill and delicacy, constitutes something dangerously close to a violation of the integrity of the personality. Managers are uncomfortable when they are put in the position of 'playing God.' The respect we hold for the inherent value of the individual leaves us distressed when we must take responsibility for judging the personal worth of a fellow man. Yet the conventional approach to performance appraisal forces us, not only to make such judgments and to see them acted upon, but also to communicate them to those we have judged. Small wonder we resist!²⁶

With the growth of unions, and their strong dislike of supervisory discretion over rewards and their strong support of seniority as a substitute control, and because supervisors, with very few exceptions, find it difficult to make distinctions among individuals except at extremes of performance range, performance appraisal today plays a smaller role in wage and salary administration. However, its use in "development" has received increasing attention. At the same time, the trend has been away from formal appraisal of blue collar workers and towards more systematic appraisal of white collar workers and managers.²⁷

In former days, performance appraisal systems were designed primarily to provide control. The usefulness of this control application led management on a search for an appraisal instrument that would be the most equitable method of evaluating performance, and, as a consequence, researchers worked to develop appraisal techniques that would optimize the

reliability and validity of appraisal judgments. An initial question was, "What kind of individual are we judging? This question is related to Douglas McGregor's development of the useful distinction between Theories X and Y.²⁸

II. MANAGEMENT PHILOSOPHY

A. THEORY X

"The conventional conceptions of management's task in harnessing human energy to organizational requirements can be stated broadly in terms of three propositions. In order to avoid the complications introduced by a label, I shall call this set of propositions 'Theory X.

"1. Management is responsible for organizing the elements of productive enterprise - money, material, equipment, people - in the interest of economic ends.

"2. With respect to people, this is a process of directing efforts, motivating them, controlling their actions, modifying their behavior to fit the needs of the organization.

"3. Without this active intervention by management, people would be passive - even resistant - to organizational needs. They must therefore be persuaded, rewarded, punished, controlled - their activities must be directed. This is management's task in managing subordinate managers or workers. We often sum it up by saying that management consists of getting things done through other people."²⁹

Behind this conventional theory, there are several additional beliefs - less explicit, but widespread:

4. The average man is by nature indolent - he works as little as possible.
5. He lacks ambition, dislikes responsibility, prefers to be led.
6. He is inherently self-centered, indifferent to organizational needs.
7. He is by nature resistant to change.
8. He is gullible, not very bright, the ready dupe of the charlatan and demagogue.

The human side of economic enterprise today is fashioned from propositions and beliefs such as these. Conventional organizational structures, managerial policies, practices, and programs reflect these assumptions.³⁰

McGregor states:

I share with a number of colleagues in the field of management, and with a few managers, the conviction that we will witness during the next couple of decades some profound, far-reaching changes in strategy utilized to manage the human resources of enterprise. These changes will not be superficial modifications in current practice, but basic revisions of certain concepts that have dominated management thinking during the past half century or more. The circumstances that will ultimately force these changes are already developing, but their significance is not yet widely recognized. They can be summed up in terms of four trends that are clearly apparent in our society today:

1. The explosive growth of science (both behavioral and physical), which is yielding knowledge relevant to every function of enterprise.

2. The rapidly increasing complexity of technology in both office and factory.

3. The growing complexity of industry-society relationships with government, consumers, suppliers, unions, stockholders, and the public generally. As a result of world-wide economic development, relations with other cultures will add substantially to these complexities.

4. The changing compositions of industrial work force. One major of these trends is that in a few years the single largest and most influential class of employees in most industrial organizations will be professional managers and specialists of many kinds, populating every department and every function. Their utilization of various branches of scientific knowledge to solve practical problems will be the primary basis for planning, decision-making, and policy formulation from top to bottom of the organization. As a result of the first three trends, they will be both indispensable and powerful, and necessity to make full use of their competence and training will force a revolution in managerial strategy.³¹

Motivation

Perhaps the best way to indicate why the conventional approach of management is inadequate is to consider the subject of motivation.

As a result of learning, man acquires a host of specific wants. A hungry infant fed warm milk will develop a want for warm milk; fed rice water, it will develop a want for rice water. The young child of Tennessee, as Horowitz and Horowitz (1938) have shown, at first plays freely with Negro children. He shows no fear or dislike. He must be taught this aversion. According to these investigators the white child is often whipped when found

playing with a Negro child, and is given to understand that as long as he persists in playing with Negro children he will continue to be whipped. His racial prejudice is learned in fear of whip.³³

As the individual's experiences become more complex and varied, his hold wants may change and new wants may arise. The fact that the wants of the individual reflect his particular learning experiences and are constantly changing does not rule out the possibility of certain common wants and fears. Because man as a biological organism, has certain invariant physiological mechanisms, we would expect all men to display a food want, a water want, a sex want, a fear of pain, etc., and it is highly probable that there are common wants because of invariants in the cultural arrangements which men face in all societies. In most cultures, men are taught to want to become a "good man," a "successful man." Thus we should expect to find universal social wants.³⁴

A. H. Maslow (1943) has proposed a theory of the specific order of the development of wants in terms of the individual's history of want satisfaction. He has proposed that the wants or needs of man develop in the following sequential order from "lower" needs to "higher" needs. At the lowest level, but preeminent in importance when they are thwarted, are his physiological needs. Man lives by bread alone, when there is no bread.

Unless the circumstances are unusual, his needs for love, for status, for recognition are inoperative when his stomach has been empty for a while. But when he eats regularly and adequately, hunger ceases to be an important need. The same is true of the other physiological needs of man - for rest, exercise, shelter, protection from the elements. When physiological needs are reasonably satisfied, needs at the next higher level begin to dominate man's behavior - to motivate him. These are called safety needs. They are

the need for protection against danger, threat, and deprivations. When man's physiological needs are satisfied and he is no longer fearful about his physical welfare, his social needs become important motivators of his behavior - for belonging, for associations, for acceptance by his fellows, for giving and receiving friendship and love.

Above the social needs, in the sense that they do not become motivators until lower needs are reasonably satisfied, are the needs of greatest significance to management and to man himself. They are the egoistic needs, and they are of two kinds:

1. Those needs that relate to one's self-esteem - needs for self-confidence, for independence, for achievement, for competence, for knowledge.

2. Those needs that relate to one's reputation - needs for status, for recognition, for appreciation, for the deserved respect of one's fellows. But they do not appear in any significant way until physiological, safety and social needs are all reasonably satisfied.

Finally, a capstone, as it were, on the hierarchy of man's needs is called the needs for self-fulfillment. These are the needs for realizing one's own potentialities, for continuing self-development, for being creative in the broadest sense of that term.³⁵

A few individuals may have their needs well satisfied off the job and may work, not because they need the money or to fulfill social and egoistic needs. A large group of individuals may find their social and egoistic needs satisfied off the job and may work only to be paid and satisfy their physiological needs. The job itself holds no interest and is merely a means to an end. For these groups there is likely to be a minimal relation between need satisfaction and job performance. This does not mean, however, that the employer should give up trying to motivate them; there are many ways in which he can attempt to get these employees interested in their jobs so that they will gain some satisfaction of social and egoistic needs at their work.

Most employees derive need satisfaction on the job as well as off the job. Although the job provides the money and security to fill physiological needs, the social relations and opportunities for self-expression both on and off the job fill their social and egoistic needs.³⁶

The carrot and stick theory of motivation works reasonably well under certain circumstances. The means for satisfying man's physiological and (within limits) his safety needs can be provided or withheld by management. Employment itself is such a means, and so are wages, working conditions, and benefits. By these means an individual can be controlled as long as he is struggling for subsistence. But the carrot and stick theory does not work at all once man has reached an adequate subsistence living level and is motivated primarily by higher needs. Management cannot provide a man with self-respect, or with the respect of his fellows, or with satisfaction of needs for self-fulfillment. It can create conditions such that he is encouraged and enabled to seek such satisfactions for himself, or it can thwart him by failing to create those conditions.³⁷ Management by directions and control fails under today's conditions to provide effective motivation of human effort toward organizational objectives. It fails because direction and control are useless methods of motivating people where physiological and safety needs are reasonably satisfied and whose social, egoistic and self-fulfillment needs are predominant.³⁸

The assumptions of Theory X for managers, McGregor goes on to say, are both out of date and not supported by the research evidence. Rather, what is supported as the assumptions and behavior prescriptions stemming from what he calls "Theory Y."

B. THEORY Y

1. Management is responsible for organizing the elements of productive enterprise - money, materials, equipment, people - in the interest of economic ends.
2. People are not by nature passive or resistant to organizational needs. They have become so as a result of experience in organizations.
3. The motivations, the potential for development, the capacity for assuming responsibility, the readiness to direct behavior toward organizational goals are all present in people. Management does not put them there. It is a responsibility for management to make it possible for people to recognize and develop these human characteristics for themselves.
4. The essential task of management is to arrange organizational conditions and methods of operations so that people can achieve their own goals best by directing their own efforts toward organizational objectives.

This is a process of creating opportunities, releasing potential, removing obstacles, encouraging growth, providing guidance. It is what Peter Drucker has called 'management by objectives' in contrast to 'management by control.'³⁹

Change in the direction of Theory Y will be slow, and it will require extensive modification of the attitude of management and workers alike. People today are accustomed to being directed, manipulated, controlled in industrial organizations and to finding satisfactions for their social, egoistic, and self-fulfillment needs away from the job. Theory X places exclusive reliance upon external control of human behavior, whereas Theory Y relies heavily on self-control and self-direction. It is worth noting that this difference is the difference between treating people as children and treating them as mature adults.⁴⁰ It is quite obvious, of course, that what McGregor is contrasting here is the traditional authoritarian, strong-man, the "I'll do the thinking around here" type of leadership with the democratic, participative decision-making, self-control type of leadership from the view point of what makes for increased performance (not satisfaction), and that he is coming out strongly for the latter type as being more

in keeping with the research evidence.⁴¹ Perhaps the most extensive series of research studies which are germane to this question are those which have been performed at the University of Michigan since 1945. This general trend shows that to the extent that a leader acts in a Theory Y manner, the subordinate will internalize this evaluation into his self-concept and thus perform accordingly.⁴²

One series of studies performed by the Michigan group in the first decade after World War II involved studying supervisory and managerial behavior at various large companies such as the Caterpillar Tractor Company, Detroit Edison, the Chesapeake and Ohio Railroad, and the Prudential Insurance Company, with the methodology in all these cases being similar. This methodology involved determining from company records, in each case, work groups that were dissimilar in terms of performance and similar in other characteristics and then seeing how the supervisors differed from one another in their behavior toward their subordinates as this was described by the subordinates. While these studies differed somewhat in detail, the results did not - all of them generally pointed to similar conclusions. These have been summarized by Miner (1963) as follows:

1. Supervisors who spend most of their time doing non-supervisory tasks are likely to be less effective.
2. Delegating tasks to subordinates so that they may carry them out in their own way was facilitative of performance.
3. Having concern for human beings increased performance.
4. The effectiveness of the three previous characteristics as a determinant of performance will increase the more the supervisor has influence with his own superiors.
5. The supervisors must assume an active leadership role rather than a passive one.⁴³

Results 2 and 3 are, of course, most relevant for our purpose here and can be considered to be highly supportive of McGregor's notions that the traditional logic of leadership needs some revision. These early studies, then, resulted in generally consistent findings with these findings in the directions suggested by McGregor. In fact, findings were so consistent that one of the theoretical models which developed out of the varied Michigan studies, and one which was based on these early studies, reads very much like the Theory Y provided by McGregor. This is the principle stated by Likert as follows:

The leadership and other processes of the organization must be such as to ensure a maximum probability that in all interactions and in all relationships within the organization, each member, in light of his background, values, desires, and expectancies, will view the experience as supportive and one which builds and maintains his sense of personal worth and importance.⁴⁴

Both Likert's principle and McGregor's arguments have generally been supported by work coming out of the University of Michigan and elsewhere. Hence, it is postulated that the total amount of control over one's own and other's job-content behaviors by organization members should be positively correlated with organization performance.⁴⁵

C. THE REVISIONISTS

In classical theory, the conflict between the man and the organization was supposed to be solved by developing an apparatus of abstract depersonalization, a system that would rationally dispense solutions without the friction of subjective coloring and human error. Max Weber, the German sociologist who contributed the first fully developed theory of bureaucracy, in fact, once likened the organization to a "modern judge who is a vending machine into which the pleading are inserted together with the fee and which then disgorge the judgment together with its reasons mechanically

derived from the code."⁴⁶ But possibly even more important than structures which took shape from the theories were the assumptions, both hidden and explicit, which the classical theorist made about "human nature." They created organizations which could be construed as predesignated, omniscient machines, and any deviation from prediction was probably occasioned by the fact that man is regrettably unpredictable and unstable or by outright engineering inadequacies.⁴⁷ In classical theory, then, the conflict between the man and the organization was neatly settled in favor of the organization. The only road to efficiency and productivity was to surrender man's needs to the service of the bloodless machine.⁴⁸ For the human relations model there is no essential conflict; satisfying the workers' social and psychological needs is entirely congruent with the organizational goals of effectiveness and productivity. Thus there is no need for an authority to govern between these forces. The leader is seen as a facilitator in this context - as an agent who helps smooth the pathway toward goal-achievement.⁴⁹

Since 1950 a number of authors have attempted to reconcile and integrate classical and modern organizational theory, whom Warren G. Bennis refers to as the revisionists. In general, they share a common concern for revising the native, unsubstantiated, and unrealistic aspects of the human relations approach without sacrificing its radical departure from traditional theory. These revisionists have modified their view for any number of reasons, but the chief ones are probably related to new research findings and some "reality" considerations.

As to research findings, the idea that productivity is strongly correlated with morale turns out to be more a wish than reality.⁵⁰ "On the basis of a study I did in 1937, I believed that morale and productivity were positively related; that the higher the morale, the higher the

higher the production. Substantial research findings since then have shown that this relationship is much too simple."⁵¹

Likert and his associates have found organizations with all possibilities: high morale with low productivity, low productivity with low morale, etc.

McGregor states:

I believed, for example, that a leader could operate successfully as a kind of adviser to his organization. I thought I could avoid being a 'boss.' Unconsciously, I suspect, I hoped to duck the unpleasant necessity of making difficult decisions, of taking the responsibility for one course of action, among many uncertain alternatives, of making mistakes and taking the consequences. I thought that maybe I could operate so that everyone would like me - that 'good human relations' would eliminate all discord and disagreement.

I couldn't have been more wrong. It took a couple of years, but I finally began to realize that a leader cannot avoid the exercise of authority any more than he can avoid responsibility for what happens to his organization.⁵²

Now the revisionists are concerned with external, economic factors -- with productivity, formal status, and so on - but not to the exclusion of human elements that the traditional theorists neglected.⁵³

Many field studies and laboratory experiments with small groups have been done in recent years, testing a number of variables related to performance appraisal. These studies have not been done on a coordinated basis, although each provides some useful information. What is needed is analysis of the interaction of these variables in a field situation to tell us which are more, and which are less important in the organizational setting within which appraisal takes place.⁵⁴

Porter and Lawler (1968) have developed a model and gathered related empirical data for the purpose of gaining some insight into human behavior in organizations and the interactions between major variables in work situations. These areas will be discussed in the next section of this paper.

III. BEHAVIOR IN WORK SITUATIONS

(The emphasis in performance appraisal today is on personal development and if this management tool is going to be successful it should be compatible with the way of life and beliefs of the society or organization. To be compatible, although performance appraisal and personal development are almost inseparable, the framework should be one based primarily on development. The theme of this portion of the thesis is to investigate if Management by Objective (MBO) can be of any help in attaining this goal.

For this purpose, the first step seems to be the development of an understanding of major factors affecting job performance. This step has been taken by Porter and Lawler (1968). They collected a considerable amount of empirical data and have also worked out a theoretical model of the relationships between job attitudes and job performance. They have focused on only one broad class of attitudes and one broad class of behavior - those that are job-related.

Attitudes traditionally have been studied by psychologists because they can provide important insight into human cognitive processes, and ultimately, because they can contribute to the understanding and prediction of human behavior. In the present study we concentrated our attention on a particular set of job attitudes because of our feeling that they are the most relevant ones for understanding employees' desires to perform effectively, the way in which employees carry out their work, and the kinds of rewards and satisfactions that are available from work.⁵⁵

We also intent to concentrate our attention upon a particular aspect of managerial job behavior. Specifically, we are interested in that job behavior which determines how effectively a manager performs his job. Thus, our focus is upon the relationship between the attitudes of managers toward their jobs and the effectiveness of their performance in their jobs. Increased knowledge in this area may lead to applications that will improve the effectiveness of organizations.⁵⁶

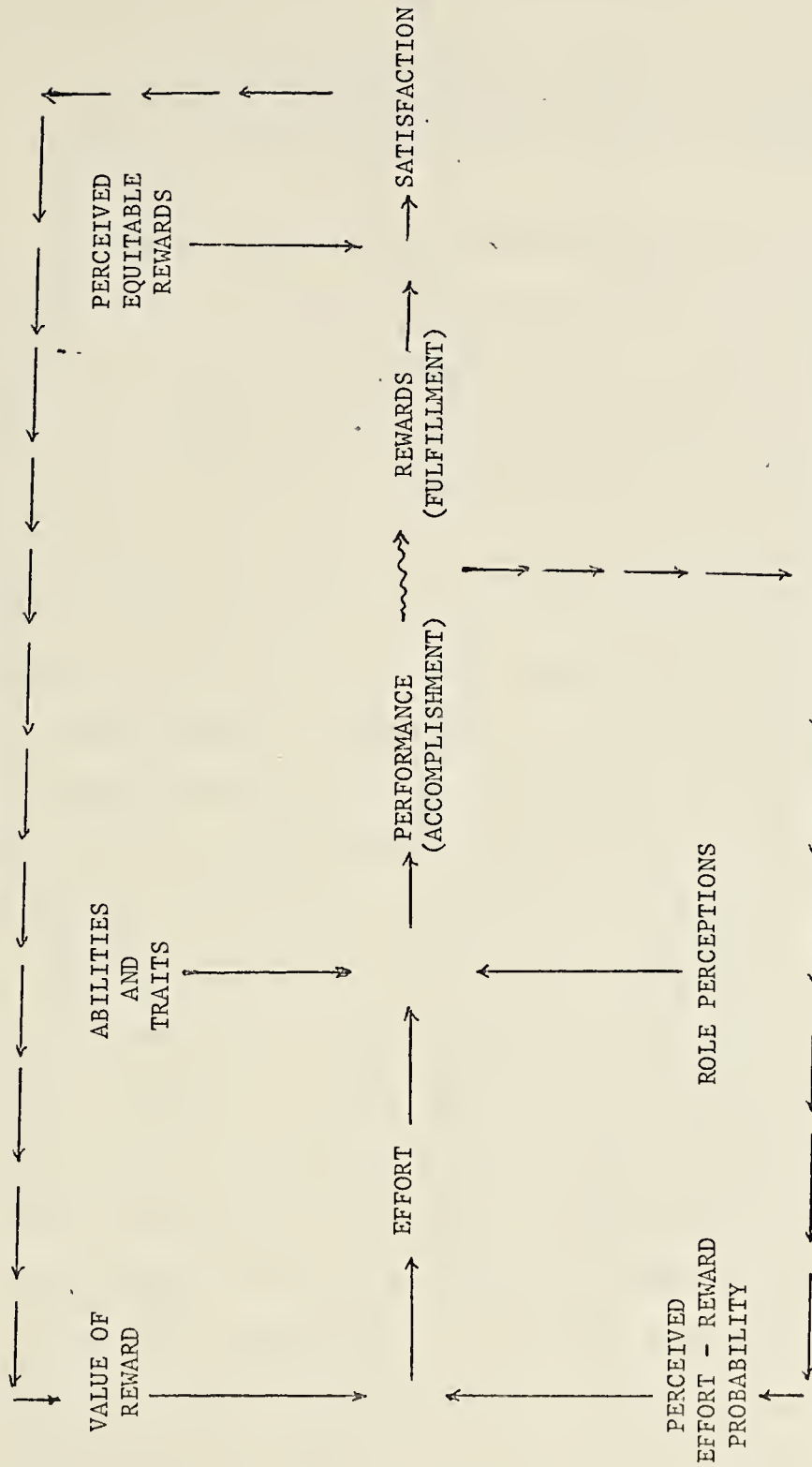
Their model has its roots in the expectancy theories of motivation and attempts to specify the kinds of job attitudes that should be related to job performance.

Porter and Lawler approached this problem in two ways: first, they developed a conceptual model that attempts to specify some of the key variables - and their inter-relationships - that are involved in understanding the links between managers' attitudes and beliefs and their behavior in the work situation; and second, by presenting relevant empirical data that were collected for the purpose of testing and elaborating the theoretical model.

Exhibit I shows the variables in the model and their relationship to one another. Their definition for these variables is as follows:

1. Value of reward refers to how attractive or desirable is a potential outcome of an individual's behavior in the work situation.
2. Effort reward probability refers to an individual's perceptions of whether differential rewards are based on differential amounts of effort on his part in the work situation.
3. Effort refers to the energy expended to perform some task, but does not necessarily correlate with how successfully the task is carried out.
4. In considering performance we must take into account the relatively long-term characteristics of individuals that remain largely unaffected by momentary changes in their environmental situation, namely, their abilities and traits.
5. Role perception deals with the way in which an individual defines his job - the types of effort he believes are essential to effective job performance.
6. Performance refers to a person's accomplishment on tasks that comprise his job. Performance, in essence, is the net effect of a person's effort as modified by his ability and traits and by his role perceptions. It can be evaluated by objective measures such as physical output, or by subjective measures such as ratings made by others or ratings made by an individual himself.
7. Rewards are desirable states of affairs that a person receives from either his own thinking or the action of others. For predicting future performance, the most important thing to know about rewards are perceived size and their perceived degree of connection to past performance.

EXHIBIT 1 The Theoretical Model



Source: Porter, L.W., Lawler, E.E., III, Managerial Attitude and Performance, Richard D. Irwin, Inc., 1968, p. 17.

8. Perceived equitable rewards are defined as the amount of rewards that a person feels is fair, given his performance on the tasks he has been asked to undertake by the organization.

9. Satisfaction is defined as the extent to which rewards actually received meet or exceed perceived equitable level of rewards. The greater failure of actual rewards to meet or exceed perceived equitable rewards, the more dissatisfied a persona is considered to be in a given situation.⁵⁷

The first part of the model concerns the relationships among three variables: value of reward, perceived effort-reward probability and effort. The data collected in their investigations that were most relevant to testing the relationships among these three variables were the data concerned with pay. Data on the value of reward variables were obtained from questionnaire information on the importance of pay to the manager. Data on the perceived effort-reward probability were obtained from questionnaire information on how closely the manager felt his pay was based on job performance factors (including effort). To collect data on effort, and also on performance, self rating and rating by supervisors were obtained. The model predicts that value of reward and perceived effort-reward probability combine to influence effort (and, in combinations with ability and role perceptions, to influence performance). That is, where the value of a potential reward is high, and where the perceived probability that effort leads to this reward is also high, then the effort should be high. Essentially this is the nature of their findings involving pay. Managers who saw pay closely tied to performance factors received higher performance and effort ratings than managers who did not see such a close relationship (i.e., who had lower effort-reward probabilities). And, as the model clearly predicts, such reward probability types of beliefs related more closely to effort than to performance.⁵⁸ Furthermore, the strongest relationships between perceptions of pay being based on performance factors and their measure of

effort, existed for those managers who attached the greatest importance to pay as a reward. This latter finding not only supports their model's contention that both the value of the reward and perceived effort-reward probability are involved in determining a manager's effort, but it also indicates that the form of the combination of these first two variables in the model is interactive rather than additive.⁵⁹

The next major set of relationships implied by the theoretical model involves the variables of effort, ability, role perceptions, and performance. The measures of both effort and performance involved ratings by supervisors and by managers themselves. Data on role perceptions were collected by means of questionnaire items dealing with inner- and other-directed behavior requirements, but little information was obtained regarding ability in their investigations. The model indicates that each of these three variables (effort, abilities, and role perceptions) should have an impact on performance and that in combination they determine performance.⁶⁰

The final set of relationships is between performance, rewards (fulfillment), perceived equitable rewards, and satisfaction. Rewards, other than pay, were measured by obtaining questionnaire information from managers concerning "how much" fulfillment they were obtaining with respect to various types of needs. The model predicts that if actual intrinsic rewards are given more or less in proportion to actual differences in performance, then perceptions of fulfillment should be related to performance differences. Perceptions of fulfillment, according to the model, do not, however, lead directly to satisfaction. The relation between fulfillment and satisfaction is modified by the individual's level of perceived equitable rewards, in that satisfaction is conceived as the difference between perceived equitable and actual rewards.⁶¹

The findings reported by Porter and Lawler (1968) showed that for their sample of managers and organizations performance and feelings of fulfillment were related, especially for higher-level needs, whereas performance and satisfaction were significantly related only when superiors' ratings (and not self ratings) constituted the measure of performance. However, the model's prediction that measures of performance would be more closely related to fulfillment than would measures of effort failed to be confirmed; fulfillment was about equally related to the two measures.⁶²

The development of prescription for organizational practices was not the primary aim of either the theoretical conceptions or the collection of the empirical data that have been described by Porter and Lawler in their book. Nevertheless, they felt a necessity to try to see where their ideas would lead if they were utilized for practical purposes⁶³ and they state:

"...we shall sum up our thinking along these lines. The spirit in which these proposals are offered is one of suggestions for organizations to consider.

1. Organizations should endeavor to measure certain types of attitudes or beliefs that go beyond the traditional (and still important) 'satisfaction' attitudes. Specifically, they should measure:

- a. The values - both positive and negative - of possible rewards and consequences that could result from an individual's attempt to exert high levels of effort in his job.

- b. Perceptions of the probabilities that positively valued rewards can be obtained by applying high levels of effort; and, perceptions of the probabilities that negatively valued consequences will result from applying high levels of effort.

- c. Role perceptions - perceptions by organizational members concerning where they should be applying their efforts in their jobs.

2. Organizations should continue to obtain job satisfaction data, but should concentrate on determining how closely levels of satisfaction are related to levels of performance. Measures of such performance - satisfaction relationships can then be used as one type of diagnostic sign indicating how effectively reward policies are working out in practice.

3. Organizations should examine the operation of their reward practices to determine if (a) they are working as planned, and (b) if they can be made more effective from a motivational point of view. One example would be to evaluate the positive and negative consequences to the organization, and to individual members, of relaxing secrecy restrictions surrounding the disbursement of compensation.

4. Organizations should consider adopting the practice of monitoring employee attitudes on a continuing basis. For new employees, this would mean brief measurements separated by relatively short intervals. For all other employees, it would mean measuring at longer but consistent intervals, and concentrating on various types of attitude content (as outlined in proposal 1 above) as well as on the regularity of the process.

The above proposals will not guarantee any immediate improvements in individual or organizational performance. However, their adoption may serve to broaden the bases of decision-making with respect to personnel policies and practices within the organization.⁶⁴

IV. MANAGEMENT BY OBJECTIVES (MBO)

A. MBO AS A PHILOSOPHY

The subject of managerial motivation has been studied at an increased rate since the early 1960's. One technique which has gained a large group of supporters and is purported to lead to improved on-the-job performance and satisfaction is known as management by objectives. It is asserted by advocates that this procedure can, among other things, provide a means of measuring the true contribution of managerial personnel, improve the delegation of decision-making, improve profit margins and lead to higher morale and satisfaction.⁶⁵ Odiorne views management by objectives as:

...a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.⁶⁶

Peter Drucker states:

...management by objectives and self-control may legitimately be called a 'philosophy' of management. It rests on an analysis of the specific needs of the management group and the obstacles it faces. It rests on a concept of human action, human behavior, and human motivation.⁶⁷

A common thread found in both the Odiorne and Drucker conceptions is that MBO should lead to improved motivation of participants. The cognitive theory of motivation expresses in psychological language what these two advocates of MBO infer. That is when an individual knows what he wants, knows the effort that will be involved in overcoming obstacles along the way, and knows what satisfaction the end state will bring, he can put his goals into action.⁶⁸ Management by objectives is a dynamic system which seeks to integrate the company's need to clarify and achieve its profit and

growth goals with the manager's need to contribute and develop himself.

It is a demanding and rewarding style of managing a business.⁶⁹

It is a disturbing and tragic fact that the most precious resource possessed by a company, its human beings, is the one it uses least effectively. Top managers frequently complain that they cannot find enough managers willing to take responsibility, that apathy and clock-watching are prevalent, that creativity and initiative are shown only by a small minority of people, and that people find excuses and alibis to explain why the objectives set from above are too demanding. Their solution is often a mass of detailed instructions coupled with tight control, so that they can point out to a manager where he is not up to standard. In the long term, the results of this approach prove disappointing. A passive rather than positive spirit is created; managers grow mechanistic, inflexible, and dependent on their superiors; their budget forecasts become cautious so that they are certain to keep out of trouble.

Management by objectives has a fundamentally different viewpoint. Its techniques are built on the practical experience we have, that most managers will respond with vitality to really challenging objectives if they wer involved in establishing them and if they work in an organizational climate which encourages self-development, self control, and an easy flow of communications. This experience is supported by an impressive amount of evidence from the social scientists, such as the classic statement of Theory Y.⁷⁰

Unfortunately, many companies are rigid in their organizational thinking. They define "the right structure" and strive to maintain it as a universal truth for all time. Management by objectives is in conflict with this inflexibility since it is based on the belief that an organization is organic, adapting its shape to meet the new objectives of the business. Moreover, it views organizations as a socio-technical system, in which the human factor is taken into consideration, as well as the technology, products, machines, and so on.⁷¹

B. THE SYSTEM OF MBO

When a worthwhile system of management by objectives is operating in a company there is a continuous process of:

1. Reviewing critically and restating the company's strategic and tactical plans.

2. Clarifying with each manager the key results and performance standards he must achieve, in line with unit and company objectives, and gain his contributions and commitment to these.

3. Agreeing with each manager a job improvement plan which makes a measurable and realistic contribution to the unit's and company's plans for better performance.

4. Providing conditions in which it is possible to achieve the key results and improvement plans, notably:

a. An organizational structure which gives a manager maximum freedom and flexibility in operation.

b. Management control information in a form, and at a frequency, which makes for more effective self-control and better and quicker decisions.

5. Using systematic performance review to measure and discuss progress toward results, and potential review to identify men with potential for advancement.

6. Developing management training plans to help each manager to overcome his weaknesses, to build on his strengths, and to accept a responsibility for self-development.

7. Strengthening a manager's motivation by effective selection, salary, and succession plans.⁷²

In this system:

Superiors and subordinates must arrive at a clear, concise, and fair conception of the features and responsibilities of the subordinate's job. Preferably, this mutual conception of the subordinate's job description will lead to the development of a document defining the broad areas of the subordinate's responsibilities. This document should be developed by the subordinate in close coordination with superiors to allow maximum flexibility and mutual agreement.⁷³

Superiors and subordinates must develop long- and short-term goals. Ideally, these objectives are prepared and recommended by a subordinate and approved by his superior. The superior should enter the process only after the subordinate has (a) done a good deal of thinking about his job; (b) made a careful assessment of his own strengths and weaknesses, and

(c) formulated some specific plans to accomplish his goals.⁷⁴ Once the goals have been approved by the superior, they become the manager's directives of required action and standards against which he will be measured and rewarded or removed.⁷⁵ The process of goal formulation is continuous through the entire process, and each goal should be periodically analyzed to insure that the following criteria are being complied with:

1. The target should always be the result to be achieved and not the method of reaching a result (methods should be left to the ingenuity of the subordinate).

2. The target must be completely within the authority of the subordinate to achieve; and if the target is, in fact, not within the scope of responsibility of the superior to delegate the needed additional authority to his subordinate, then the projected goal must be modified to overcome this defect.

3. Care must be taken to insure that the subordinate can always be held personally accountable for the achievement or failure to meet goals without someone from another department being able to influence the results.⁷⁶

At the conclusion of some period of time, the subordinate will make an appraisal of his own accomplishments relative to the targets earlier established. After substantiating his achievement with factual data, an examination is made of the results, the targets are re-evaluated and specific results to be obtained in the forthcoming period are agreed upon.⁷⁷ Again Koontz and O'Donnell emphasize the superior as identifying the desired results and then becoming aware of the satisfactory and unsatisfactory elements of the subordinate's achievements. After an analysis of these results, the superior invites the subordinate to a conference to agree upon specific results to be obtained in the future period.⁷⁸ Evaluation, or measuring periods, should be kept short, allowing for frequent appraisal and evaluation and keeping selected objectives relatively simple.⁷⁹

The central objective of a company must be to maximize the long-term return on resources which it employs. Planning for a profit must be done

in the context of a critical analysis of the organization's strengths and weaknesses, of the threats and opportunities arising from the external environment in which it operates, and of the expectations of the owners, employers, employees, and customers. A critical analysis of this kind, projected several years ahead, invariably demonstrates action to secure immediate improvements. More important, it leads to the development of long-term strategic plans. Once the strategic plans are established, supporting tactical plans can be worked out.⁸⁰

Each manager must be clear about the results he is expected to secure, in line with company objectives, or he may direct his time and energy into unimportant tasks. The key results analysis is a useful way to get each manager to analyze his key tasks, performance standards, and control information, and to suggest ways in which all these could be improved.

A draft can be discussed with his immediate superior and finally approved at one management level higher. A skilled adviser should counsel managers on the best way to make this analysis, and be a catalyst to original thought. The discipline of preparing such an analysis is an excellent on-the-job training method and creates a more constructive sense of purpose and understanding between each manager and his superior.⁸¹ As Douglas McGregor pointed out, we need an agricultural analogy in which we provide the environment in which men can grow themselves, rather than an industrial analogy in which we try to manufacture managers.⁸²

A way of finding out what makes managers successful is through situational analysis and situational thinking. This means that instead of studying the actions of individual managers, we study the entire situation in which they work. Managers work in a variety of environments, and the particular environment in which they are called upon to function can ac

account for their success or failure as often as their personal actions. Thus, the value and goals of the organization in which the manager works invariably shape his behavior and are often the underlying reason for his success or failure. The manager relates to the organization and gets his work done in, through, and occasionally around it. A knowledge of its values, the way it operates, its people, and its policies is essential in understanding managerial achievement (or its absence).⁸³ Every manager also works in an economic environment. The availability of funds, the procedures for accounting, the level of competition, and hundreds of other economic factors must be considered in explaining managerial success. Also to be taken into account is the manager's technical environment. To a considerable extent, the success of managers in such fields as baking, insurance, manufacturing, education, hospital administration, or accounting is shaped by the demands of the profession they manage and practice. Some managers can readily translate from one field to another. A few seem able to manage any kind of business. Some can only succeed in a single line.⁸⁴ For the most part, the higher a person goes in the organization, the more time and energy he spends on the managerial portion of his job. For this reason a top military man can move into a top industrial or business post, because at the top, wherever he is, he is exclusively a manager. It is more difficult for a lower-level manager to switch fields, since the technical part of his job will differ from one spot to another. There are many other situational forces that influence managerial action. Values, customs, mores - all sorts of social and political factors may place special demands on the manager and must be weighed in explaining his behavior.⁸⁵

A management system should provide a framework for picturing the major factors in the situation as an integrated whole. It should be realistic.

It should simplify the complex rather than complicate the simple. It should also allow for some subsystems. At its best, a management system should incorporate both inputs and outputs, impute the risks of business to individual managers and be considered as an almost self-contained whole. This doesn't exclude it from being part of a larger system, however, including the value system.

Management by objectives meets many of these criteria for a systematic approach to the manager's job. It deals with the organizational framework which is common to industry. It also relates to the large problem of increasing the vitality and personal effectiveness of managers as well as their personal risk-taking.⁸⁶ Management by objectives provides an answer to the problem of determining the manager's span of control, that is, how many men he can manage. The answer is that he can manage as many people as he can set goals for with reasonable accuracy, can measure results for - and secure acceptance for both functions. Management by objectives defines what kinds of people a manager can handle in terms of his knowledge, as contrasted with that of his subordinates. For this is a system whereby a manager can manage persons of any level of competence and education provided he knows enough about their work, first to be able to define with them accurately what goals they should be shooting for, and later to measure how well their results stand up to these goals. Measurement by objectives determines who shall get the pay increase from among the limitless demands for the limited funds available in the enterprise. The increases are allocated on the basis of the results achieved against agreed-upon goals at the beginning of the period. Management by objectives distills the complex problem of communications by giving first priority to the

communication of job-related, risk-taking information, and treating the communications of goals and results as the primary communications problem.⁸⁷

Management by objectives also solves much of the problem of delegation by treating it as a learning curve. The rate of control can be diminished at the rate which the supervisor can teach the subordinate to act on his own, and the rate of subordinate independence is a function of how fast he accepts objectives and learns to move toward them.⁸⁸

The above list by no means exhausts the problems that can be handled by the manager who adopts the system of management by objectives. Let it be understood, however, that this is far from being a simple procedure, or a "cook book" approach. In fact, nothing is more fatal than to conceive of a management system as a cut-and-dried procedure. Experience has repeatedly shown that when the architects of a management system regard it simply as one more mechanism, it is never accepted by the people who are called upon to put it into effect.⁸⁹

Certain assumptions related to the field of human behavior are inherent in the system of appraisal-by-results. These assumptions, as Likert has stated, are based on theories developed in the field of behavioral science, and as such, their validity should not be accepted as a proven fact. Like any newly-tried system, this system will, over the years, negate or cause a re-evaluation of many of these assumptions. These assumptions do, however, provide management with a check-list of human characteristics which should aid top management in evaluation of whether the new system should be established. If top management does not consider these assumptions valid, then it could be a danger sign that necessary top-level interest will not exist in the degree necessary to implement such a complex system. Likert's assumptions about human behavior in the organization are stated as follows:

1. The quality of superior-subordinate relationship exerts a major influence on the behavior of subordinates and on all aspects of the organization's operation.

2. The relationship between the superior and his subordinates, which results in the best performance is sufferative in nature and contributes to the subordinate's sense of personal worth and importance...

3. Subordinates seem to react unfavorably, at least in our society, to negative evaluations by their superiors. (Some subordinates are so upset that they actually fail to hear the unfavorable appraisals and report that they do not know how they stand with their boss.)

4. People seem most willing and emotionally able to accept, and to examine, in a non-defensive manner, information about themselves and their behavior, including their inadequacies, when it is in the form of objective evidence.

5. People tend to respond positively to information suggesting potential improvements in their behavior when this information is conveyed in the friendly, supportive atmosphere of a small, well-established group in which they feel secure.

6. People seek to learn new and more effective ways of behaving only when they themselves recognize the inadequacies in their present behavior.

7. The extent of an individual's desire to learn better ways of behaving depends on how important he feels the situation is to him.

8. When an individual is motivated to improve and modify his behavior, it is essential that he receive prompt, accurate reports on the adequacy of his efforts.

9. Much of the learning needed for managerial development must occur at the intellectual, emotional, attitudinal, and behavior levels.

10. Persons in hierarchical organizations generally recognize the power of hierarchy and try to evoke favorable reactions from superiors who have influence in the hierarchy.

11. Participation in decisions in the small work group, under the leadership of a superior skilled in the process, is a particularly powerful method of training and achieving change.⁹⁰

C. ADVANTAGES DERIVED FROM APPRAISAL-BY-RESULTS

As a part of a management by objectives system, appraisal-by-results provides the user certain advantages over more conventional approaches to performance appraisal discussed earlier. Some advantages result from the

avoidance of errors commonly inherent in conventional systems of appraisal. These advantages are: avoidance of vagueness, avoidance of subjective evaluations, goals for the organization, and development of the subordinate. The above four advantages, in addition to other recognized advantages, will now be discussed.

1. Avoidance of Vagueness

By attempting to establish objectives and goals that can be clearly verifiable by qualitative and quantitative measurements, vagueness is reduced, thus eliminating misunderstanding and improving communication.⁹¹

2. Avoidance of Subjective Evaluations

Subordinates dislike being evaluated on the basis of arbitrary and unverifiable conclusions. Appraisal-by-results provides the superior with the cold, hard facts required to justify a rating. The subordinate should know where he stands on the basis of his self-appraisal of his performance. This would establish a clear path of understanding between superior and subordinate. This is not to say that the superior will take any great pleasure from a critical interview, but at least the results will be backed up by accurate, previously agreed-upon facts.⁹²

3. Benefits to the Organization

Not only do the goals and objectives which were agreed upon form a firm basis for periodic and annual appraisal of the subordinate's performance, but their attainment will be of great benefit to the organization. Thus, the organization is provided with a tool that enables it to train and appraise its managers as well as develop organizational goal congruence.⁹³

4. Benefits to the Subordinate

Appraisal-by-results enables the subordinate to be aware of where he stands in the organization at all times. He is able to accurately identify his weaknesses in terms which facilitate correction. This system brings out the best qualities of initiative and judgment in the manager, and in that respect is an important training vehicle for management at all levels. By being able to participate in the formulation of objectives and goals, the subordinate suddenly becomes an important cog in what could easily have been an impersonal machine. Participation, and the resultant ego satisfaction, will greatly improve managerial morale at all levels with a hopeful result of improved organizational accomplishments.

5. Appraisal-by-Results Emphasizes Future

Appraisal-by-results provides an emphasis on the future rather than the past. It "becomes a means to a constructive end."⁹⁴

6. Appraisal-by-Results Helps Prevent Managerial Obsolescence

Appraisal-by-results aids in the identification and prevention of managerial obsolescence. This advantage is basically a combination of the results attained from the above advantages. Obsolescence of managers is a serious problem of management and occurs when a once-capable manager can no longer achieve the results which are expected of him. Management by objectives and appraisal-by-results jointly apply the pressure necessary to enable an individual to perform at his maximum potential and recognize his own creeping obsolescence. At the same time, the system will enable the organization to pinpoint obsolescence and take corrective actions to eliminate it.⁹⁵

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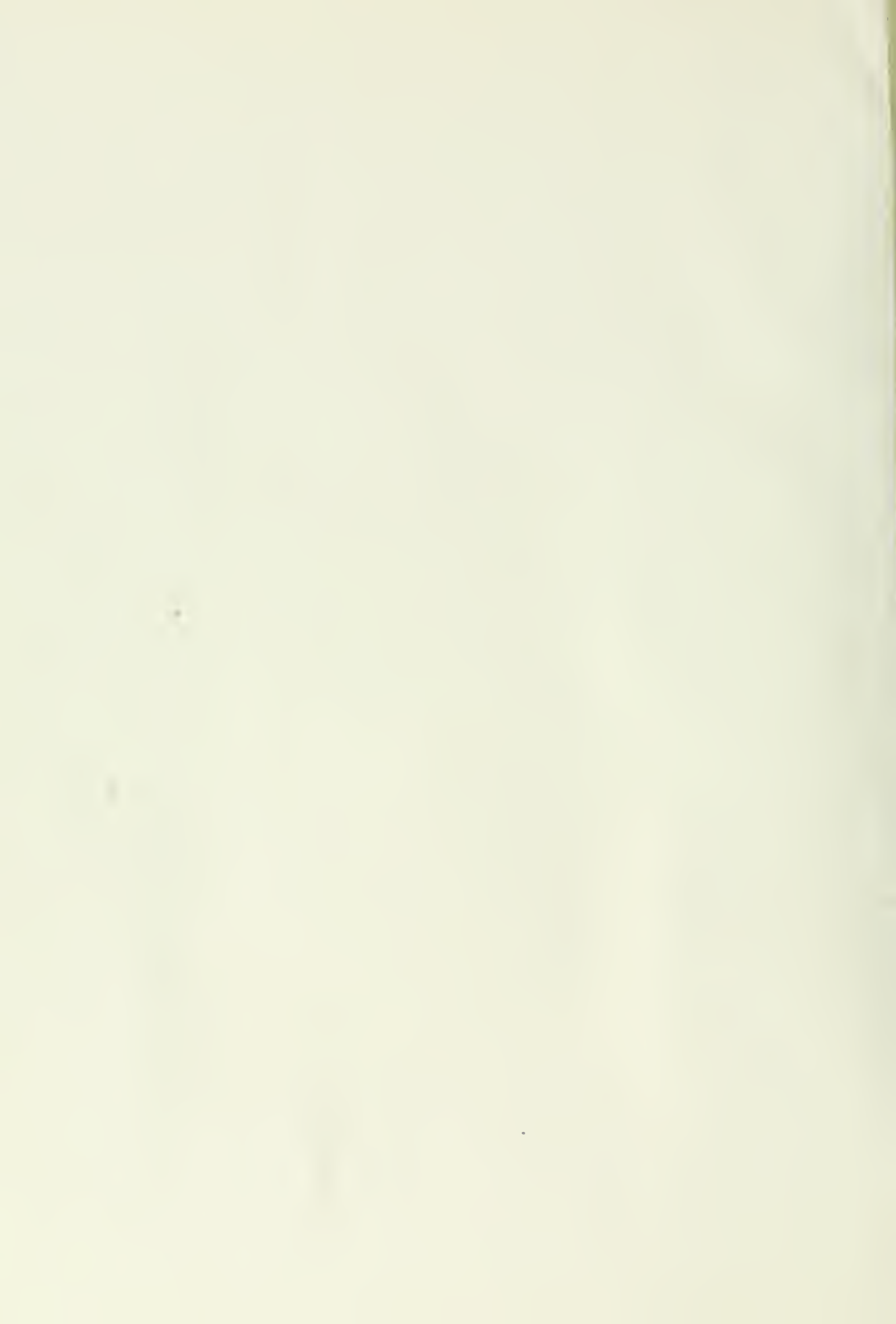
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